

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE****Asset Management & Compliance Section**

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**ASSET MANAGEMENT & COMPLIANCE SECTION
AMC****MANAGEMENT MEMO
Memorandum Number: 05-04****TO: RHCP/RRA Sponsors and Property Managers****DATE: August 1, 2005****FROM: Janet Marzolf, Section Chief, Asset Management & Compliance Section****SUBJECT: Change to vacancy allowance calculation for RHCP/RRA units**

A review of our method of calculating vacancy losses for RHCP/RRA units indicated it was not in accord with the Program regulations. Accordingly, we have changed our procedures to bring them into alignment with the Program requirements. Therefore, on budgets approved after February 1, 2005, and for Sponsor Certifications for fiscal year 2005, we are initiating the change described below. This change will not affect previously approved budgets or Sponsor Certifications for fiscal year 2004.

We will now approve, as a projected vacancy loss in budgets submitted for approval, only the actual amount of loss reasonably expected for RHCP/RRA units. As a reasonable approximation of actual loss, we will accept an amount equal to 3 percent of the gross RHCP/RRA rental income for RHCP/RRA units. However, if your project can substantiate a higher vacancy loss for RHCP/RRA units, such higher loss may be allowed. This calculation for RHCP/RRA units does not affect your calculation for your non-RHCP/RRA units.

The following is a description of how to calculate the proper amount for budgeted vacancy loss projections:

Using the attached version of the form titled *Vacancy/Contingency Allowance-RHCP Units* (Form RRA-607), enter, on the first line, (1) the total number of RHCP/RRA units, (2) the total gross annual rental income for RHCP/RRA units from the *Schedule of Rental Income - RHCP Units* (Form RRA-605), and (3) 3% as the vacancy factor. Next, multiply 3% times the total gross annual rental income. The resulting amount is the Vacancy Allowance. Enter this amount in the last column to the right. The existing instructions for Form RRA-607 are replaced by this instruction, and this version of Form RRA-607 replaces the previous version.

We are making a related change in the *RHCP Annual Sponsor Certification*, Form RRA-702, submitted with the audit. On page 4, *Report of Rent Loss and Use of Vacancy /Contingency Allowance* (in the Operations Manual on page 199), the actual rent loss for RHCP/RRA units (based on RHCP rents, not RD rents), will be used in the line indicated as "Rent Loss Due to Vacancy - RHCP Units". The instruction on page 200 is hereby amended to reflect this change.

We appreciate your understanding and cooperation in helping us make the transition to this new process. We believe the vacancy loss calculation is simplified by this change, and the new process now meets the requirements of the Program. For any further assistance on this matter, please contact your Asset Management Representative or call the Asset Management & Compliance Section at (916) 324-8282.